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SUBJECT: BOTNIA OPERATING SUCCESSFULLY; ENCE PREPARES TO
BUILD

Botnia is operating smoothly, no environmental impact

¶1. (SBU) After a turbulent start, Finnish Botnia - the largest foreign investor in Uruguay - celebrated its second month of smooth operations on January 9. The firm is operating at 70% of its capacity and has already exported 148,000 ton of cellulose, worth \$112 million, to China and Europe. The President of Botnia Uruguay Ron Beare told Ambassador that his company "couldn't be more pleased with the results so far and that production had exceeded expectations."

¶2. (SBU) Botnia's plant has also contributed significantly to local industrial growth and, contrary to the fears of Argentine and some local environmentalists, so far has not caused any negative environmental impact. A January 20 report by Green Cross, an environmental consulting firm founded by former Soviet President Gorbachev, found that sulfur dioxide levels have remained stable and concur with GOU reports that the plant is not polluting the Uruguay River. On January 3, an Argentine specialist told local press that his working group "had not found anything unusual" attributable to the plant. However, the next day, he backtracked saying that he was actually referring to the pre-Botnia situation.

Is the conflict with Argentina losing pressure?

¶3. (U) Botnia's installation by the Uruguay River triggered an unusually bleak conflict with Argentina that prompted a complete blockage of one of the three shared bridges/borders by Argentine protestors in Gualeguaychu, and intermittent blockages of the other two. The longstanding conflict has had a negative impact on Uruguay's economy, including a sharp decline in the number of Argentine visitors to Uruguay in ¶2007. While tensions remain, and flare ups may still occur, the conflict seems to be gradually losing pressure. Early 2008 figures show Argentine tourists are returning to Uruguay (January and February are the high season for the tourism industry) at numbers near or above pre-Botnia levels. Uruguayan President Vazquez has sent friendly overtures to Argentine President Fernandez who in turn seems willing to leave the conflict at The Hague for the time being. NOTE: The GOU expects the International Court of Justice at The Hague to render its decision in the case in mid-2009. END NOTE. The slight thaw in the political situation and the indications that the plant is not contaminating may be gradually undermining the fervor of the Gualeguaychu protestors.

Spanish ENCE started a second pulp mill

¶4. (U) On January 14, the GOU authorized Spanish firm ENCE to begin construction of a huge pulp mill (similar in scope to Botnia's) in Conchillas, near Colonia, on the Rio de la Plata estuary. Company representatives confirmed to Ambassador that ENCE had begun to prepare the site for construction and planned to expedite construction. ENCE originally planned to build its plant closer to the Botnia plant, but suspended construction for nearly two years, reportedly due to Argentine pressure. Instead it opted for a location further away from Argentina's coastline. ENCE plans to invest \$1.3 billion in this pulp mill, reportedly the largest overseas Spanish investment ever, and more than double the amount originally planned. ENCE officials downplayed reports that a third pulp mill project, by Portucel, would also take off soon. They explained that Protucel did not own forestry acreage in Uruguay and had not begun to buy any. Without a ready supply of raw materials, talk of building a plant did not amount to much, they said.

COMMENT

¶5. (SBU) COMMENT: Our impression is that the long-running pulp mill dispute, that has soured Uruguay-Argentina relations, may have crested. To some extent President Vazquez has benefited politically for having stood up to Argentine pressure. ENCE's initiation of construction is also a feather in the cap of the GOU, which considers that investment a direct result of Botnia's success.

Baxter